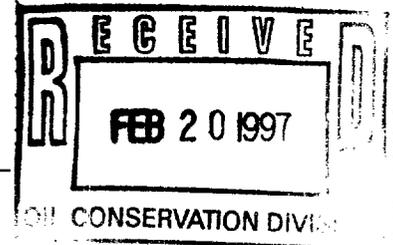


STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:)

CASE NO. 11,715

APPLICATION OF SANTA FE ENERGY
 RESOURCES, INC., FOR COMPULSORY POOLING,
 LEA COUNTY, NEW MEXICO



REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 6th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 6th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

February 6th, 1997
 Examiner Hearing
 CASE NO. 11,715

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APPLICANT'S WITNESSES:

JOE W. HAMMOND (Landman)

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THOMAS J. TINNEY, III (Geologist)

Direct Examination by Mr. Bruce 15

Examination by Examiner Stogner 19

REPORTER'S CERTIFICATE

22

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	11
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Exhibit 3	9	11
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Exhibit 5	16	19
Exhibit 6	17	19

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law
 612 Old Santa Fe Trail, Suite B
 Santa Fe, New Mexico 87501
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 9:45 a.m.:

3
4 EXAMINER STOGNER: At this time I'll call Case
5 Number 11,715, which is the Application of Santa Fe Energy
6 Resources, Inc., for compulsory pooling, Lea County, New
7 Mexico.

8 At this time I'll call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce from Santa
10 Fe, New Mexico, representing the Applicant. I have two
11 witnesses to be sworn.

12 EXAMINER STOGNER: Mr. Bruce, what firm are you
13 with now?

14 MR. BRUCE: Just me.

15 EXAMINER STOGNER: Congratulations, if that's in
16 order, Mr. Bruce.

17 MR. BRUCE: Thanks.

18 EXAMINER STOGNER: Does anybody else have any
19 appearances at this time?

20 How many witnesses do you have?

21 MR. BRUCE: Two.

22 EXAMINER STOGNER: Both witnesses, please stand
23 to be sworn at this time.

24 (Thereupon, the witnesses were sworn.)

25 EXAMINER STOGNER: Mr. Bruce?

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JOE W. HAMMOND,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Will you please state your name for the record?

A. Joe W. Hammond.

Q. And where do you reside?

A. Midland, Texas.

Q. Who do you work for and in what capacity?

A. Santa Fe Energy Resources, Inc., as a senior landman.

Q. Have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as an expert petroleum landman accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the land matters involved in this Application?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I'd tender Mr. Hammond as an expert petroleum landman.

EXAMINER STOGNER: Mr. Hammond is so qualified.

Q. (By Mr. Bruce) Mr. Hammond, what is it that

1 Santa Fe seeks in this case?

2 A. We seek an order pooling the south half of
3 Section 29, 22 South, 34 East, Lea County, New Mexico, from
4 the surface to the base of the Morrow formation, for all
5 pools and formations spaced on 320 acres.

6 Q. Could you refer to Exhibit 1, identify that for
7 the Examiner, and discuss its contents?

8 A. That is a land plat indicating the area that
9 we're pooling today. Again, the south half of Section 29
10 is outlined in red.

11 Our proposed well has an arrow to it. The gray
12 outline is the existing Gaucho Unit, and we're proposing to
13 drill the Gaucho Unit Number 2 well.

14 Q. And the yellow acreage indicates Santa Fe
15 interests?

16 A. That is correct.

17 Q. And the Gaucho unit, what type of unit is that?

18 A. It's a federal exploratory unit.

19 Q. Okay, and is Santa Fe the operator?

20 A. Yes, we are.

21 Q. What is the exact footage location of the wells?

22 A. It will be an orthodox location of 1650 feet from
23 the south line and 1650 feet from the west line of Section
24 29.

25 Q. What is the ownership of the south half of

1 Section 29?

2 A. The ownership in the southwest quarter, which is
3 covered by Federal lease 69,596, is owned Santa Fe Energy
4 50 percent working interest, and Southwestern Energy
5 Production Company 50 percent working interest.

6 The southeast quarter, which is covered by
7 federal lease 61,360, is owned by Amerada Hess Corp. 25
8 percent, and Robert E. Landreth 75 percent.

9 Q. Okay, and who are the parties you seek to pool in
10 this case?

11 A. We seek to pool both Robert E. Landreth and
12 Amerada Hess Corporation.

13 Q. What would be their exact interests in the
14 proposed well?

15 A. Robert E. Landreth would have a 37.50-percent
16 working interest. Amerada Hess would have a 12.50-percent
17 working interest.

18 Q. Now, has Southwestern Energy Production Company
19 agreed to join in the well with Santa Fe?

20 A. Yes, they have.

21 Q. Let's discuss Santa Fe's efforts to get both Mr.
22 Landreth and Amerada to join in the well voluntarily. I'd
23 refer you to your Exhibits 2A and 2B. Let's start with
24 Exhibit 2A. Discuss your contacts briefly for the Examiner
25 with Mr. Landreth.

1 A. There's been numerous telephone conversations and
2 written letters back and forth, of which copies are
3 attached in your exhibit there.

4 This well was proposed to Mr. Landreth September
5 the 16th of 1996. I talked to him on the 18th and received
6 a letter from him on the 26th where we attempted to try to
7 put a deal together, where both parties would be
8 comfortable. That particular letter was not satisfactory
9 to Santa Fe.

10 We continued talking through October and through
11 November of 1996, and Mr. Landreth sent another letter on
12 December 10th, again wanting to include some additional
13 acreage in the deal, that Santa Fe is not interested in
14 including.

15 And again, numerous telephone conversations to
16 Mr. Landreth, including the 10th of 1997, January 10th.
17 And we received another letter on the 22nd of January where
18 again he wants to include some acreage outside the unit
19 area here as part of the deal, and again it was not
20 satisfactory to Santa Fe. And I believe it was last
21 Friday, I talked with, again, Mr. Landreth, and again he
22 was continuing to think about the well proposal in possible
23 trades.

24 Q. Okay. Now, although it's not included in Exhibit
25 2A, your original proposal letter of September 16th, 1996,

1 did include an AFE?

2 A. Yes, it did.

3 Q. Okay. Now, how about Amerada? And I refer you
4 to Exhibit 2B.

5 A. Again, the well proposal was sent to Amerada on
6 the 16th of September, 1996.

7 I talked with Randy Pharr at Amerada on the 18th
8 of September, 1996. Again, continued discussions through
9 October and November, and the latest in December and
10 January.

11 I have been informed that Mr. Landreth has a
12 first right of refusal on the Amerada Hess interest in this
13 pooling, and the latest information that I have is that
14 Amerada Hess will be farming out to Mr. Landreth pursuant
15 to a prior unrecorded agreement, and -- That's the latest.

16 Q. So it may end up with Mr. Landreth owning all of
17 Amerada's interest in this well?

18 A. That is correct, and basically he would own the
19 entire southeast quarter.

20 Q. Okay. But at this time Amerada still has an
21 interest?

22 A. Yes, they do.

23 Q. In your opinion, has Santa Fe Energy made a good-
24 faith effort to obtain the voluntary joinder of these
25 interest owners in the well?

1 A. Yes.

2 Q. Please identify Exhibit 3 for the Examiner.

3 A. That is Santa Fe Energy's AFE and well cost
4 estimate for the drilling of this well.

5 Q. What is the estimated cost and the estimated
6 depth of the well?

7 A. Again, it's a 13,600-foot Morrow test with an
8 estimated dryhole cost of \$1,240,000 and an estimated
9 completed cost of \$1,600,000.

10 Q. Is the cost, or the proposed cost, of this well
11 in line with the cost of other wells drilled to this depth
12 in this area of New Mexico?

13 A. Yes, it is.

14 Q. Does Santa Fe Energy request that it be
15 designated operator of the well?

16 A. Yes.

17 Q. Do you have a recommendation for the amounts
18 which Santa Fe Energy should be paid for overhead expenses?

19 A. \$6000 a month allowed for a drilling well and
20 \$600 a month allowed for a producing well.

21 Q. And are these amounts equivalent to those
22 normally charged by Santa Fe Energy and other operators in
23 this area of the state for wells of this depth?

24 A. Yes, they are.

25 Q. Finally, Mr. Hammond, were Amerada and Mr.

1 Landreth notified of this hearing?

2 A. Yes, they were.

3 Q. And is Exhibit 4 the affidavit of notice
4 containing the return receipts? Mr. Hammond, is Exhibit 4
5 the affidavit of notice?

6 A. Oh, yes, it is, excuse me.

7 Q. Okay. And were Exhibits 1 through 4 prepared by
8 you, under your supervision, or compiled from company
9 business records?

10 A. Yes, they were.

11 Q. And in your opinion is the granting of Santa Fe
12 Energy's Application in the interests of conservation and
13 the prevention of waste?

14 A. Yes.

15 Q. One final thing, Mr. Hammond: Do you request
16 expedited approval of the order?

17 A. Yes, we do.

18 Q. And why is that?

19 A. The southeast quarter, which is where Mr.
20 Landreth and Amerada Hess own interests, will expire July 1
21 of 1997, this year.

22 This is a lease that has been extended one time
23 already, so we have to drill and have production on this
24 unit on or before July 1 of this year.

25 Q. How long does it take to drill these wells?

1 A. At a minimum of 60 days.

2 Q. Okay, and what about -- Have you contracted for a
3 well at this point, or a --

4 A. Yes.

5 Q. -- excuse me, a rig at this point?

6 A. Yes, we have a rig that we think will be able to
7 start around late February.

8 Q. Okay.

9 A. Yes.

10 Q. So what you're looking at is completing this
11 well, hopefully, maybe in May?

12 A. Yes.

13 Q. And you have to have actual production, not just
14 merely well operations?

15 A. That is correct, we cannot be drilling. We have
16 to have the well completed and ready for production.

17 MR. BRUCE: Okay. Mr. Examiner, at this time I
18 would tender the admission of Exhibits 1 through 4.

19 EXAMINER STOGNER: Exhibits 1 through 4 will be
20 admitted into evidence at this time.

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. In referring to Exhibit Number 1, this is the
24 outline of the unit. Could you give me a little history of
25 that unit, when it was formed and...

1 A. The unit was approved by the BLM on March 20th,
2 1996, and we have drilled already the Gaucho Unit Number 1
3 well, which is located in the northeast quarter of Section
4 29. I think you see it there.

5 Q. Did you say that well was already there prior to
6 the formation of the unit?

7 A. No, it has been drilled since the formation.

8 Q. Since?

9 A. Yes, that's the Gaucho Unit Number 1 well. We're
10 proposing to drill the Gaucho Unit Number 2 well.

11 Q. During the formation of the unit, was the
12 interest of Amerada Hess and Landreth contacted at that
13 time to form the unit?

14 A. Yes, they were, and they both elected not to
15 participate in the unit.

16 Q. Okay.

17 A. And as you can see, the southeast of 29 and the
18 northwest of Section 20 is not colored, and that's simply
19 because the ownership is common between those two tracts,
20 and it's owned by -- or -- Mr. Landreth and Amerada Hess.

21 Q. That's not to say that that's one single lease;
22 they're two different leases or two different tracts?

23 A. I believe that is one -- that is one lease.

24 Q. It is one tract?

25 A. Yes.

1 Q. Okay.

2 A. By saving this lease in the southwest of 29,
3 we'll be able to save both tracts.

4 Q. Okay. What is the proration unit for that Number
5 1 well up in the northeast quarter?

6 A. It is the north half of Section 29.

7 Q. Okay. And when was that well drilled -- or
8 spudded, or when did you do all the necessary land work?

9 A. It was drilled in the -- it was recent -- It was
10 put on line in December of 1996, and so it was drilled in
11 the third and fourth quarters of 1996. I don't have the
12 exact dates here in front of me.

13 Q. Now, you mentioned there was another party that's
14 already signed?

15 A. Yes, Southwestern Energy Production. They own
16 literally a 50-percent interest in the unit, the same as
17 Santa Fe.

18 Q. Now, are they a unit participant?

19 A. Yes, they are.

20 Q. Oh, okay.

21 A. Yeah.

22 Q. How many participating parties are there in the
23 unit itself?

24 A. There's just two, Santa Fe Energy and
25 Southwestern Energy Production.

1 Q. Okay. When I look up in Section 19, I see a --
2 It looks like a Peter Press and an Amoco --

3 A. Well --

4 Q. -- acreage designated.

5 A. -- I don't have -- That is acreage that Santa Fe
6 has acquired, and I don't -- but I don't have the, I guess,
7 that information with me.

8 But that is information that -- That's tracts
9 that Santa Fe has acquired.

10 Q. Okay. You mentioned that Mr. Landreth had
11 written about another proposition in another well. How far
12 away was that?

13 A. It is about two miles to the southeast in Section
14 4 of that township and range down there.

15 MR. BRUCE: In 23 South, 34 East, I think, Mr.
16 Examiner.

17 THE WITNESS: Yes.

18 Q. (By Examiner Stogner) It's not on the map, in
19 other words?

20 A. No, it's not.

21 Q. Okay. You mentioned \$6000 and \$600 as the
22 overhead charges?

23 A. Yes.

24 Q. And what do you base that on?

25 A. I base that on the operating agreement covering

1 the Gaucho Unit Number 1 well.

2 Q. Okay, has Santa Fe participated in those kind of
3 charges with other operators in the area?

4 A. Yes, we have.

5 EXAMINER STOGNER: I have no other questions of
6 Mr. Hammond. You may be excused.

7 MR. BRUCE: We'd like to call Mr. Tinney to the
8 stand.

9 THOMAS J. TINNEY, III,

10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Will you please state your name for the record?

15 A. Thomas Jordan Tinney, III.

16 Q. Where do you reside?

17 A. Midland, Texas.

18 Q. Who do you work for and in what capacity?

19 A. Santa Fe Energy Resources, Inc., as a senior
20 geologist.

21 Q. Have you previously testified before the
22 Division?

23 A. Yes, I have.

24 Q. As a petroleum geologist?

25 A. That's correct.

1 Q. And were your credentials as an expert accepted
2 as a matter of record?

3 A. Yes, they were.

4 Q. Are you familiar with the geological matters
5 involved in this Application?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I would tender Mr.
8 Tinney as an expert geologist.

9 EXAMINER STOGNER: Mr. Tinney is so qualified.

10 Q. (By Mr. Bruce) Mr. Tinney, what is the primary
11 zone of interest in this well?

12 A. The Grama Ridge "A" Morrow sand.

13 Q. Would you refer to your Exhibit 5, I believe it
14 is --

15 A. Yes, this is a --

16 Q. -- and discuss that, please?

17 A. This map shows a net clean sand thickness of the
18 Grama Ridge "A" sand. It shows the location of the Gaucho
19 Unit Number 1. The value there is 18 feet of net clean
20 sand.

21 It also shows the proposed location, with the red
22 square for the Gaucho Unit Number 2.

23 It also shows the Grama Ridge sand, which was
24 deposited as a fluvial stream channel system and trends
25 north-south across the map.

1 Q. Now, based on this map, it looks like you will
2 obtain roughly the same net clean sand thickness as the
3 Gaucho Unit Number 1 well?

4 A. That's correct.

5 Q. Okay. Now, this line also shows an A-A' cross-
6 section. Would you move to your Exhibit 6 and discuss
7 that?

8 A. Exhibit 6 is a west-to-east structural cross-
9 section, A-A'.

10 It shows the -- the first well, the Gaucho Unit
11 Number 1. It shows the perforations for that well and the
12 producing horizon. The Grama Ridge "A" sand should be
13 colored yellow. The red signifies the porosity greater
14 than 8 percent.

15 It also shows the relative location to the --
16 proposed location of the Gaucho Unit Number 2.

17 Q. Okay. Now, the Gaucho Number 1 was originally
18 drilled to the Morrow, right? I mean, not to the Morrow,
19 to the Devonian?

20 A. That's correct. We tested the Devonian, it was
21 wet and we attempted a completion also in that well in the
22 middle Morrow "C" sand, which was tight, and then we came
23 up and completed in the Grama Ridge "A" sand.

24 Q. Okay. What is the -- at this point, roughly the
25 producing capability of the Number 1 well?

1 A. The current rate on the Number 1 is 2.3 million
2 cubic feet a day.

3 Q. Okay. Now, faulting is also indicated on that
4 map. Is it also indicated on your isopach map?

5 A. Yes, it is, and that faulting was a post-
6 deposition of the Morrow sands.

7 Q. Are there any secondary objectives in this well?

8 A. I believe there are, the Grama Ridge "B" sand,
9 the middle Morrow "C", and the middle Morrow "A" sands.

10 Q. Okay. But at this point it's kind of hard to
11 tell?

12 A. Well, the Grama Ridge "B" and the middle Morrow
13 "A" were both not present in the Gaucho Unit Number 1, but
14 knowing the nature of these sands I feel like there could
15 be some potential there.

16 Q. Okay. In your opinion, what penalty should be
17 assessed against any nonconsenting interest owner in this
18 well?

19 A. Cost plus 200 percent.

20 Q. Were Exhibits 5 and 6 prepared by you or under
21 your direction?

22 A. Yes, they were.

23 Q. And in your opinion, is the granting of Santa Fe
24 Energy's Application in the interests of conservation and
25 the prevention of waste?

1 Q. And your yellow markings on this map indicate
2 what?

3 A. Greater than 20 feet of net clean sand. So it's
4 just to kind of give a better idea of the fairway.

5 Q. Now, that well Number 6 up to the north there,
6 it's in the yellow portion, but it's not indicated in red.
7 Did that not produce or not test the Morrow interval?

8 A. That's correct, it was downdip and it was
9 nonproductive.

10 Q. So it has to be up on the upthrown portion of the
11 fault; is that correct?

12 A. Yes, sir.

13 Q. Is there any Wolfcamp, Strawn or Atoka
14 indications in this area?

15 A. There's nothing -- There's some scattered
16 production out of those zones, especially the Atoka, but
17 it's nothing that we felt like we could map with any
18 confidence.

19 EXAMINER STOGNER: No other questions.

20 Mr. Bruce?

21 MR. BRUCE: I have nothing further in this case,
22 Mr. Examiner.

23 EXAMINER STOGNER: Does anybody else have
24 anything further in Case Number 11,715?

25 Then this case will be taken under advisement.

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I'll take note, the -- order.

And also Mr. Bruce, I would not say no to a proposed draft if you would like to turn in...

MR. BRUCE: It will be on your desk shortly, Mr. Examiner.

(Thereupon, these proceedings were concluded at 9:10 a.m.)

* * *

I do hereby certify that the foregoing is a complete and correct transcript of the proceedings in the Examination hearing of Case No. 11715, heard by me on 6 February 1992.

 Examiner
Oil Conservation Division

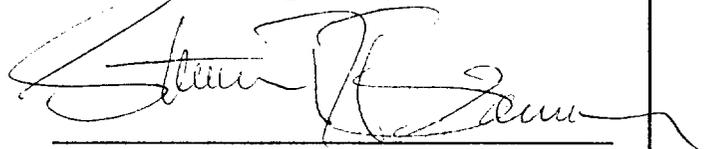
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) SS.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 7th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998